

**OPENING STATEMENT OF STEPHEN HALL
BEFORE THE SENATE COMMITTEE ON
COMMERCE, SCIENCE, AND TRANSPORTATION**

May 15, 2002

Thank you, Mr. Chairman, distinguished Senators. My name is Stephen Hall. As an attorney at the law firm of Stoel Rives LLP, which served as outside counsel to Enron North America ("Enron") on certain regulatory matters, I was asked in October 2000 to research and prepare a memorandum describing certain wholesale energy trading practices at Enron. That memorandum, delivered to Enron on December 6, 2000, characterized certain of those practices as deceptive. At the same time, we advised Enron in a face-to-face meeting that deceptive trading practices could violate the ISO tariffs as well as state criminal laws. Enron has waived the attorney-client privilege with respect to these matters, and I would be happy to assist the Committee in any way in its investigation of Enron's trading practices in the California wholesale energy markets.

I would like to provide some brief background regarding the preparation of the memorandum. In fall 2000, as an associate at Stoel Rives, I did work for various clients of the firm in the energy industry, including Enron. I worked under the supervision of Marcus Wood, a partner at Stoel Rives with many years of experience in the energy industry. In October 2000, I attended a meeting in Portland convened by Enron's litigation counsel to address the Company's response to a subpoena from the California Public Utility Commission. Attorneys from the two law firms retained to advise Enron in that matter were in attendance. During the course of that meeting, Enron traders began describing certain strategies used in the California wholesale energy market. The strategies presented

were extraordinarily complex and the descriptions given were highly technical. Following that meeting, Enron's counsel asked me to review the applicable tariffs, interview Enron traders and seek to develop, for the first time, a written description of the trading strategies that were identified at the meeting. Subsequently, in addition to my other ongoing responsibilities, I talked with traders at Enron and, working with Mr. Wood and Enron inside counsel Christian Yoder, who is also testifying today, developed the memorandum that has been provided to the Committee.

As I learned about Enron's trading practices, I became increasingly concerned. In the course of my discussions with traders, I became aware that certain of these trading strategies involved deception. For example, one strategy dubbed "Load Shift" appeared to involve submitting schedules to the California Independent System Operator ("ISO") that intentionally overstated or understated the load in different zones to cause the ISO to make payments to relieve the supposed congestion in the overscheduled zone. As I learned of deceptive practices, I advised the traders with whom I spoke that such practices were deceptive and that they should stop such practices immediately. I also attended meetings in which Enron traders provided assurances that such practices had been discontinued.

In addition to the descriptions of trading practices I had been asked to prepare, I took it upon myself to include in the memorandum a summary of the ISO Tariff rules against "gaming" or deceptive practices, so that Enron would understand the ISO standards applicable to these practices and the sanctions for violations. I also discussed my findings with Mr. Yoder, who shared my concerns and requested that his name be included as a co-author of the memorandum. Mr. Yoder believed that sending a joint memorandum from both inside counsel and outside counsel criticizing these deceptive

practices would assist in focusing the attention of Enron management on these issues and prevent any recurrences.

Mr. Wood, my supervising partner, also had very strong concerns as a result of these findings and wanted to ensure that Enron management understood that these or any similar deceptive strategies were unacceptable. Accordingly, Mr. Wood revised the memorandum to emphasize the deceptive nature of certain of these strategies. On December 6, I emailed the revised memorandum to both Enron in-house counsel and Enron's outside litigation counsel.

On December 7, 2000, Mr. Wood and I met personally with Mr. Yoder at his offices, and Mr. Wood delivered a hard copy of the final memorandum together with copies of California criminal statutes on fraud and theft. Mr. Wood wanted it to be clear to Enron that deceptive practices could constitute violations not only of ISO rules but also possibly of criminal statutes. Subsequently, Mr. Yoder and I met with the head trader at Enron to communicate Stoel Rives' findings and conclusions to ensure that he understood our belief that many of the trading practices involved deception.

As a point of clarification, this committee has been provided two copies of the Stoel Rives memorandum, one of which bears the date December 6, 2000 and one of which bears the date December 8, 2000. The Committee should be aware that there is only one Stoel Rives memorandum, which was finalized on December 6. The two memoranda are identical, and we believe the date on each copy simply reflects the date that copy was printed off of the computer. There is also a third memorandum before the Committee that was subsequently prepared by the Brobeck law firm. Stoel

Rives had no involvement in the preparation of the Brobeck memorandum.

In sum, I was asked to talk with Enron's traders to learn about and summarize the trading strategies used. In the course of my review, my law firm developed an understanding of those strategies, identified in writing certain practices that appeared deceptive, advised Enron traders that these practices must be discontinued, understood that Enron had discontinued these practices, and advised our client that the future use of deceptive trading practices could violate ISO rules and/or criminal statutes. I appreciate the opportunity to appear before the Committee to discuss our findings and answer any questions that the Committee may have.